

JAN 23 2006



TO: Director, Goddard Space Flight Center

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on the Procurement of Organizational Development and Training Services at Goddard Space Flight Center
(Assignment No. S0600200)

In response to your request, the NASA Office of Inspector General (OIG) conducted a review of Goddard's internal controls and procedures related to the procurement of organizational development (consulting/coaching) and training services. The request was originated after a Goddard Office of Human Resources (OHR) employee was found to have fraudulently issued purchase orders, approved payments, and conspired with an acquaintance to collect payments totaling \$194,000 for organizational development services that were neither needed nor rendered. The scope and methodology for this review are addressed in Enclosure 1.

We found that Goddard's internal controls over the procurement of organizational development and training services need to be improved in two areas: (1) duties within the OHR for procurement of these services need to be adequately separated, and (2) standardized training requirements need to be developed for OHR personnel who have been delegated limited contracting officer warrants by the Goddard Procurement Operations Division. Inadequate separation of duties and a lack of standardized training requirements are control weaknesses that, if not corrected, could leave Goddard vulnerable to additional instances of fraud, waste, or abuse.

Our November 22, 2005, draft of this memorandum recommended that you appoint a separate OHR official (independent from the OHR warrant holder making the award) for all future procurements to certify that the procured services were received and payment is authorized. In addition, we recommended you institute a formal policy requiring micro-purchase warrant holders to receive initial procurement training as well as refresher training at appropriate intervals. In its response letter dated December 9, 2005, Goddard concurred with both recommendations and indicated completed and planned corrective actions (see Enclosure 2). Goddard's indicated actions in response to the recommendations are responsive; however, the recommendations will remain open for reporting purposes pending completion of corrective action.

Background

Goddard is responsible for obtaining organizational development and training services for its employees. The Goddard Procurement Operations Division approves all procurements

for these services valued at more than \$2,500. For these services valued at \$2,500 or less, however, procurement authority is delegated to Goddard's OHR, which is composed of five sections. Procuring organizational development and training services falls within the responsibilities of two of these sections—the Strategic Consulting and Transformation Office (formerly the Leadership and Organizational Development Office) and the Learning and Worklife Office (formerly the Career Development and Employee Worklife Office). As of June 14, 2005, the Goddard Procurement Operations Division had delegated limited contracting officer warrants to 15 individuals within the Goddard OHR, allowing them to purchase organizational development and training services valued at \$2,500 or less.¹ Although OHR limited warrant holders are not procurement personnel, they are responsible for following standard procurement practices such as obtaining the necessary justifications, ensuring that the requirements are clearly defined, and ensuring that sufficient funds are available.

In March 2006, NASA will transfer responsibility for obtaining training services, NASA-wide, to the new NASA Shared Services Center (NSSC).² The responsibility for obtaining organizational development services will be retained by the centers; and, until March 2006, the centers will continue to be responsible for procuring both organizational development and training services.

Results of OIG Review

We found internal control weaknesses related to inadequate separation of duties and a lack of training. Duties within the OHR for procurement of organizational development and training services need to be adequately separated and Goddard needs to develop standardized training requirements for OHR personnel who have been delegated limited contracting officer warrants.

Inadequate Separation of Duties Within OHR

The specific instances of fraud committed by the Goddard OHR employee involved fictitious procurements of organizational development services (as opposed to training services). The procurement process for organizational development services is slightly different from the procurement process for training services; however, we found that both processes have the same vulnerabilities.

For organizational development services of any dollar amount, the procurement process is initiated by a Goddard requester who fills out an "OD Services Request Form" from the OHR web site and submits it to OHR via e-mail. An OHR organizational development specialist then reviews the request and meets with the requester to discuss the requester's specific needs and determine whether the needs can be met with in-house expertise or must be contracted out. If the services are contracted out, the OHR organizational development

¹ The \$2,500 purchasing limit corresponds to the Federal Acquisition Regulation (FAR) micropurchase threshold. Purchases at or below the micropurchase threshold may be awarded using simplified acquisition methods and without soliciting competitive quotations.

² The NSSC Procurement Officer stated that the NSSC has not yet established processes and controls for acquiring training services.

specialist generates a purchase order and signs as the contracting officer. The selected contractor then provides the services and submits an invoice to the OHR organizational development specialist who then signs the invoice, certifying that the services were received and that the invoice can be paid, and forwards the invoice to accounting for payment.

In the case of the identified fraudulent purchase orders for organizational development services, the (now former) OHR employee initiated 26 fraudulent purchase orders, without any valid customer requests, and then falsely certified on the invoices that services were received and that the invoices could be paid. Nine of 26 fraudulent transactions were below the micro-purchase level of \$2,500 while the other 17 were above the micro-purchase level and required involvement by the Office of Procurement.³ She was able to perpetrate the fraud because there was no separation of duties within OHR to ensure the validity of the services being procured, nor any mechanism to provide an independent confirmation that the services were actually rendered, were acceptable, and could be paid.

For training services, the procurement process begins when either OHR (as the service provider) or a Goddard customer outside of the OHR identifies a training need. The OHR warranted training specialist reviews and, if appropriate, approves the request; certifies that funds are available; selects a qualified vendor; and forwards the request to the OHR training coordinator. The OHR training coordinator then prepares a purchase order for the warranted OHR training specialists' signature and issuance. After completion of the services, the OHR warranted training specialist signs the invoice as the contracting officer certifying that the services were received and that the invoice could be paid.

We found that there was inadequate separation of duties within OHR in 4 of the 25 procurements (16 percent) for training services that we reviewed. For these four procurement actions, the same OHR employee initiated the purchase order, certified that funds were available, signed as the technical officer, signed as the contracting officer, and certified that the services were received and could be paid. As with the procurement process for organizational development services, there is inadequate separation of duties within the OHR to ensure the validity of the requirement or to provide an independent confirmation that the services were rendered, were acceptable, and could be paid.

The inadequate separation of duties within OHR, if not corrected, could lead to additional instances of fraud, waste, or abuse.

Lack of Training for OHR Limited Warrant Holders

We found that 7 of the 15 current OHR warrant holders received no formal training prior to receiving their limited warrants.⁴ This condition exists because OHR personnel with limited warrants of \$2,500 or less are not considered to be "procurement personnel" as

³ For those orders above \$2,500, the Office of Procurement's involvement was limited to signing the purchase orders as the contracting officer. Otherwise, the procurement process was the same as the process for orders below \$2,500.

⁴ We were unable to verify whether one of the OHR warrant holders received training because the individual was out of the office on extended leave.

defined by the Office of Federal Procurement Policy (OFPP) and therefore are not required to meet any specific procurement training requirements. There is no written guidance requiring formal training for micropurchase warrant holders.

We were told that Goddard has recently implemented an informal policy of providing new micropurchase warrant holders with Web-based Contracting Orientation training. We confirmed that the last three OHR training specialists who were issued warrants completed this training prior to receiving their warrants. However, we are concerned that, without a formal written policy requiring micropurchase warrant holders to receive procurement training, that this important training may become inconsistent and sporadic in the future, thus negating the benefits of such training.

Goddard's Planned Actions

We were told that the OHR Strategic Consulting and Transformation Office is currently considering some changes to their process for obtaining organizational development services, which should help improve internal controls. The actions include using indefinite-delivery/indefinite-quantity (ID/IQ) contracts to obtain organizational development services through the Procurement Operations Division rather than through blanket purchase order agreements or sole-source purchase orders. Also, OHR is considering implementing a Web-based service for requesting organizational development services that will maintain a repository of all requests in one place, thus eliminating the email requests. Finally, they are considering hiring additional OD specialists, thus enhancing OHR's ability to provide in-house services to Goddard personnel and reduce the need to contract out for these services. While these steps should improve Goddard's acquisition process for these services in the future, we believe that other immediate corrective actions need to be taken in order to reduce Goddard's vulnerability to fraud, waste, and abuse.

Recommendation 1

1. OHR should appoint a separate OHR official (independent from the OHR warrant holder making the award) for all future procurements to certify that the procured organizational development and training services were received and payment is authorized. This review by a second OHR official would establish the organizational checks and balances necessary to ensure the integrity of the procurement process for these services.

Management's Response

Goddard concurred with our recommendation. Goddard's response letter stated that OHR modified its process to include the signature from the team lead or higher as the certifier for receipt of training and payment authorization. The response letter also stated that in no case will the originator be the certifying official and, as an additional safeguard, the Chief of the Learning and Worklife Office will review monthly reports of the prior month purchasing activity from the OHR Business Planning Office.

Evaluation of Management's Response

Goddard's actions are responsive to the recommendation and we confirmed that OHR has implemented its new process. Recommendation 1 is closed.

Recommendation 2

2. Goddard should institute a formal policy requiring micropurchase warrant holders to receive initial procurement training, as well as refresher training at appropriate intervals (for example, every three years).

Management's Response

Goddard concurred with our recommendation. Goddard's response letter stated that, at present, all OHR Goddard warrants supporting the Center's training have been suspended. The response letter went on to state that, to the extent that warrants are restored, OHR will comply with the new Procurement requirement that all warrant holders complete a formal training program including refresher training for "outside" buying programs.

Evaluation of Management's Response

Goddard concurred with our recommendation, but has not yet instituted a formal training policy as recommended. However, the Goddard Procurement Officer stated that Goddard Procurement will formally post the new policy on the Goddard Procurement Policy webpage and will issue a formal Goddard Center Announcement notifying all personnel of the new policy and directing them to the webpage. Goddard's anticipated completion date for these actions is February 28, 2006. This recommendation will remain open for reporting purposes pending completion of the corrective actions.

If you have questions, please contact Mr. Joseph Kroener, Director of Procurement Audits, at (202) 358-2558. We appreciate the courtesies and cooperation provided during the review.



Evelyn R. Klemstine

Enclosures

cc:

Assistant Administrator for Procurement

Chief Financial Officer

General Counsel

Director, Management Systems Division

GSFC/Procurement Officer

/Director of Human Resources

/Chief Counsel

ARC/Procurement Officer

DFRC/Procurement Officer

GRC/Procurement Officer

JSC/Procurement Officer

KSC/Procurement Officer

LaRC/Procurement Officer

MSFC/Procurement Officer

NMO/Procurement Officer

SSC/Procurement Officer

Objective, Scope, and Methodology

The Goddard Center Director requested that we evaluate internal controls and procedures in place within the Office of Human Resources (OHR) for acquiring training and consulting/coaching services. This request was initiated after a Goddard OHR employee in the Strategic Consulting and Transformation Office was found to have fraudulently issued purchase orders and approved payments for services that were never required or rendered. To accomplish the objective, we performed the following:

- Reviewed Goddard and Headquarters' processes and procedures for purchasing training and organizational development services. We focused on off-site as well as on-site training.
- Interviewed Goddard and Headquarters OHR warrant holders, procurement officials, and support contractor personnel associated with obtaining training and organizational development services.
- Selected a sample of purchase orders for fiscal year 2005 for Goddard and Headquarters to determine whether the process was consistently performed in accordance with established procedures.

To identify the universe of purchase order actions at Goddard and Headquarters for fiscal year 2005, we used the computer-processed data from the Goddard and Headquarters internal spreadsheets. We used this data only to select a judgmental sample consisting of one or more procurements from each current OHR warrant holder to provide a sufficient basis for us to adequately assess the procurement process throughout the entire OHR. We determined that the data was sufficiently reliable for the purposes of this report.

We conducted this review from June 2005 through September 2005. The review was conducted in accordance with Quality Standards for Inspections as outlined by the President's Council on Integrity and Efficiency.



December 9, 2005

Reply to Attn of: 110

TO: Assistant Inspector General for Auditing

FROM: Director, Goddard Space Flight Center

SUBJECT: Procurement of Organizational Development and Training Services at
Goddard Space Flight Center (Assignment No. S0600200)

Thank you for your response and report related to the procurement of organizational development (consulting/coaching) and training services at the Goddard Space Flight Center. With regard to your findings and recommendations, the following applies.

Recommendation #1

"OHR should appoint a separate OHR official (independent from the OHR warrant holder making the award) for all future procurements to certify that the procured organizational development and training services were received and payment is authorized. This review by a second OHR official would establish the organizational checks and balances necessary to ensure the integrity of the procurement process for these services."

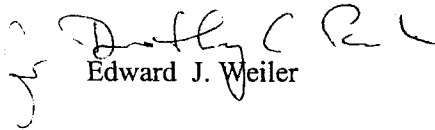
We concur with the recommendation. The Office of Human Resources (OHR) has modified its process to include the signature from the team lead or higher of the originating source to certify receipt of training and authorize payments. In no case will the originator be the certifying official. Additionally, monthly reports of prior month purchasing activity are provided by the OHR Business Planning Office to the Chief of the Learning and Work-Life Office as an additional check for identifying work performed.

Recommendation #2

"Goddard should institute a formal policy requiring micro-purchase warrant holders to receive initial procurement training, as well as refresher training at appropriate intervals (for example, every three years)."

We concur with this recommendation. Currently, all OHR Goddard warrants supporting the Center's training have been suspended. However, to the extent that warrants are restored, the OHR will comply with the new Procurement requirement that all warrant holders complete a formal training program (and refresher training) for "outside" (of procurement) buying programs. Additionally, individual card holders will be required to have both, initial and refresher procurement training, annual ethics training, and will need to file an annual financial disclosure. Outside buying is also being added to Procurement's Self-Assessment Program.

We believe with the implementation of the above recommendations, Goddard's vulnerability to fraud, waste, and abuse is mitigated substantially. If you have any questions or concerns, please contact Ms. Lina Savkar, Director of the Office of Human Resources at 301-286-5025.


Edward J. Weiler

cc:

100/Ms. K. Pacquin
110/Ms. L. Savkar
200/Ms. D. Williams
200/Ms. V. Burr